MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BAC2684 – FINANCIAL STATEMENT ANALYSIS

(All sections / Groups)

16 OCTOBER 2017
9.00 am – 12.00 PM
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages (excluding cover page) and FOUR (4) STRUCTURED QUESTIONS

2. Attempt **ALL** the questions. Distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION ONE (25 MARKS)

a) Companies often complain of the time-consuming and often difficult task of complying with the often changing financial reporting standards. In Malaysia particularly, companies are required by the Financial Reporting Act 1997 to comply with the Malaysian Financial Reporting Standards set by the Malaysian Accounting Standards Board. Discuss the necessity of having Financial Reporting Standards.

(12 marks)

b) The market views financial reports with some scepticism as it is a universally accepted truth that companies would paint their financial situation according to their particular concerns rather than with pure objectivity. The fact that accountants often have to use judgement in making accounting decisions pave to the phenomenon of 'earnings management'. WHY and HOW do companies manage the way they report their earnings? Discuss.

(13 marks)
(TOTAL: 25 MARKS)

QUESTION TWO (25 MARKS)

a) Southpaw Sdn Bhd is a retailer dealing in a single product. Beginning inventory on January 1 of this year is zero, operating expenses for this same year are RM5,000, and there are 2,000 common shares outstanding. The following purchases are made this year.

October	1	Beginning inventory	400	units @ RM10 =	RM 4,000
	8	Purchase	800	units @ RM11=	8,800
	16	Purchase	600	units @ RM12=	7,200
	24	Purchase	200	units @ RM13=	2,600
	Total units and cost		2,000	units	RM22,600

Ending inventory at December 31 is 500 units. End of year assets, excluding inventories, amount to RM75,000, of which RM50,000 of the RM75,000 are current. Current liabilities amount to RM25,000, and long-term liabilities equal to RM10,000.

Required:

i) Determine net income for this year under FIFO, LIFO and Average cost methods. Assume a sales price of RM25 per unit and ignore income taxes.

(6 marks)

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ii) Compute the following ratios under EACH of the inventory methods.

I. Current ratio
II. Debt to equity ratio
III. Inventory turnover
IV. Return on total assets
V. Gross margin as a percent of sales
VI. Net profit as a percent of sales

(12 marks)

iii) Discuss the effects of inventory accounting methods for financial statement analysis given the results of (i) and (ii).

(7 marks)
(TOTAL: 25 MARKS)

QUESTION THREE (25 MARKS)

a) Bujon Bhd conducts a majority of its operations from leased premises. The accounting policy for the leases was reported as operating leases. Future minimum lease payments (MLP) on noncancellable operating leases are as follow: (RMmillions)

MLP	(RM millions)
2012	222
2013	149
2014	128
2015	112
2016	108
2017and later	1503
Total MLP	2222
Interest rate	7%

Selected financial data for 2011 for Bujon are as follows:

Sales	21250
Fixed assets	5700
Long term debt	2700
Equity	6000
Outstanding shares (in millions)	250
Stock price	RM51.50

Continued..

Required:
Prepare an amortisation schedule. Show the interest expense, depreciation expense and asset balance for the each year of the estimated remaining life of the lease.

(12 marks)

b) Roda Berhad's return on net operating assets (RNOA) is 10% and its tax rate 25%. Its net operating assets (RM5 million) are financed entirely by common shareholders' equity. Management is considering using bonds to finance an expansion costing RM2 million. It expects a return on net operation assets to remain unchanged. There are two alternatives to finance the expansion:

1. Issue RM1 million bonds with 5% coupon and RM1 million ordinary shares

2. Issue RM2 million bonds with 7 % coupon.

Required:

i) Compute Roda Berhad's current net operating income after tax (NOPAT) and net income
(1 mark)

ii) Determine net income and NOPAT for each alternative financing plan.
(4 marks)

iii) Compute return on common shareholder's equity for each alternative (use ending equity
(2 marks)

iv) Explain any difference in the ROCE for the alternative plans computed in c. Include a discussion of leverage in your response.
(6 marks)

(TOTAL: 25 MARKS)

QUESTION FOUR (25 MARKS)

a) Financial statements are a major source of information about a company. Forecasts, reports and recommendations from analysts are popular alternative sources of information.

Required:

i) Discuss the strengths of financial statement information for business decision makers.
(4 marks)

ii) Discuss the strengths of analyst forecast information to business decision makers.
(2.5 marks)

iii) Discuss how the two information sources in i) and ii) are inter-related.
(1.5 marks)

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b) The following information is available for Gorengan Bhd for the year ended December 31, 2016:

Collection of principal on long-term loan to a supplier	RM15,000
Acquisition of equipment for cash	10,000
Proceeds from the sale of long-term investment at book value	27,000
Issuance of common stock for cash	20,000
Depreciation expense	35,000
Redemption of bonds payable at carrying (book) value	24,000
Payment of cash dividends	14,000
Net income	30,000
Purchase of land by issuing bonds payable	40,000

In addition, the following information is available from the comparative balance sheet for Gorengan at the end of 2015 and 2016:

	2016	2015
Cash	RM 87,000	RM14,000
Accounts receivable (net)	20,000	15,000
Prepaid insurance	17,000	13,000
Total current assets	RM124,000	RM42,000
Accounts payable	RM 25,000	RM19,000
Salaries payable	4,000	7,000
Total current liabilities	RM 29,000	RM26,000

Required:

i) Prepare Gorengan's statement of cash flows for the year ended December 31, 2016 using the indirect method.

(8 marks)

ii) As a result of the cash flow statement above, comment on the outcome of the three activities below:
   a. Investing activities
   b. Financing activities
   c. Operating activities

(9 marks)

(TOTAL: 25 MARKS)

End of paper.